SUMMARY OF KEY PROVISIONS OF THE MUTUAL FUND REFORM ACT OF 2004

The Mutual Fund Reform Act of 2004 makes fund governance truly accountable, requires genuinely transparent total fund costs, enhances comprehension and comparison of fund fees, confronts trading abuses, creates a culture of compliance, eliminates hidden transactions that mislead investors and drive up costs—and saves billions of dollars for the 95 million Americans who invest in mutual funds. MFRA strives above all to preserve the attractiveness of mutual funds as a flexible and investor-friendly vehicle for long-term, diversified investment.

Title 1: Truly Fiduciary Fund Governance

The Mutual Fund Reform Act of 2004 puts the interests of investors first by:

- Ensuring independent and empowered boards of directors
- Clarifying and making specific fund directors' foremost fiduciary duty to shareholders
- Strengthening the fund advisers' fiduciary duty regarding negotiating fees and providing fund information
- Instituting Sarbanes-Oxley-style provisions for independent accounting and auditing, codes of ethics, chief compliance officers, compliance certifications, and whistleblower protections

Title 2: Meaningful Fund Transparency

The Mutual Reform Act of 2004 empowers both investors and free markets with clear, comprehensible fund transaction information by:

- Standardizing computation and disclosure of (i) fund expenses and (ii) transaction costs, which yield a total investment cost ratio, and tell investors actual dollar costs
- Providing disclosure and definitions of all types of costs and requiring that the SEC approve imposition of any new types of costs
- Disclosing portfolio managers' compensation and stake in fund
- Disclosing broker compensation at the point of sale
- Disclosing and explaining portfolio turnover ratios to investors
- Disclosing proxy voting policies and record

Title 3: Straightforward Fund Transactions

The Mutual Fund Reform Act of 2004 vastly simplifies the disclosure regime by:

- Eliminating asset-based distribution fees (Rule 12b-1 fees), the original purpose of which has been lost and the current use of which is confusing and misleading—**and** amending the Investment Company Act of 1940 to permit the use of the adviser's fee for distribution expenses, which locates the incentive to keep distribution expenses reasonable exactly where it belongs—with the fund adviser
- Prohibiting shadow transactions—such as revenue sharing, directed brokerage, and soft-dollar arrangements—that are riddled with conflicts of interest, serve no reasonable business purpose, and drive up costs
- "Unbundling" commissions, such that research and other services, heretofore covered by hidden soft-dollar arrangements, will be the subject of separate negotiation and a freer and fairer market
- Requiring enforceable market timing policies and mandatory redemption fees—as well as provision by omnibus account intermediaries of basic customer information to funds to enable funds to enforce their market timing, redemption fee, and breakpoint discount policies
- Requiring fair value pricing and strengthening late trading rules